

BRANCH INTERMEDIATE SCHOOL DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2008

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INDEPENDENT AUDITOR'S REPORT

**Board of Education
Branch Intermediate School District
Branch County, Michigan**

September 8, 2008

We have audited the accompanying financial statements of the governmental activities, and each major fund, and the aggregate remaining fund information of the Branch Intermediate School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Branch Intermediate School District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund and the aggregate remaining fund information of the Branch Intermediate School District as of June 30, 2008 and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Governmental Auditing Standards, we have also issued our report dated September 8, 2008 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Required Supplemental Information

The management's discussion and analysis and budgetary comparison information on pages 3 through 18 and 41 through 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Combining Financial Statements and Other Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Branch Intermediate School District's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Rumsey & Watkins P.C.".

RUMSEY & WATKINS, P.C.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Branch Intermediate School District's financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2008.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Information comparing the recently completed fiscal year with the previous fiscal year, is included in accordance with the requirements of GASB Statement No. 34.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Branch Intermediate School District financially as a whole. The Governmental Activities Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The Governmental Funds financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the Governmental Activities Financial Statements by providing information about the School District's most significant (major) funds – the General Fund, Vocational Education Fund, Vocational Education Capital Projects Fund, and Special Education Fund. The remaining statement, the Statement of Fiduciary Net Assets presents financial information about activities for which the School District acts solely as an agent for the benefit of students.

Organization of the Report

Management's Discussion & Analysis (MD&A) – Required Supplemental Information

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Assets

Statement of Activities

Governmental Funds Financial Statements

Notes to the Financial Statements

Required Supplemental Information – Budgetary Information for Major Funds

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Reporting the School District as a Whole - Government-Wide Financial Statements

One of the most important questions asked about the School District is, "Is the School District as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets, the difference between assets and liabilities, as reported in the Statement of Net Assets, as one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net assets, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, Branch Intermediate School District's goal is to provide services to our students and constituent local school districts, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided to students and services provided to the constituent local school districts to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, operations and maintenance, transportation, and community services. Property taxes, state school aid, and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant (major) funds, not the School District as a whole. Some funds are required to be established by State law. However, the School District may establish other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental funds information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation, included in this annual report.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds and scholarship funds. All of the School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. The following provides a summary of the School District's net assets as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Current and other assets	\$10,272,304	\$10,993,549
Capital assets	6,182,528	5,156,927
Total assets	<u>16,454,832</u>	<u>16,150,476</u>
Current and other liabilities	3,009,271	2,518,038
Long-term liabilities	591,912	580,353
Total liabilities	<u>3,601,183</u>	<u>3,098,391</u>
Net assets		
Invested in capital assets, net of related debt	5,856,435	4,830,834
Restricted	369,879	913,062
Unrestricted	6,627,335	7,308,189
Total net assets	<u>\$ 12,853,649</u>	<u>\$ 13,052,085</u>

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The School District's net assets at June 30, 2008 and 2007 amounted to \$12,853,649 and \$13,052,085, respectively. Of this amount, \$6,627,335 and \$7,308,189 was unrestricted for 2008 and 2007, respectively. Restricted and designated net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. At June 30, 2008 and 2007 the School District had restricted net assets in the amount of \$369,879 and \$913,062, respectively. Our analysis above focuses on the net assets and change in net assets of the School District's governmental activities.

The unrestricted net assets of governmental activities for 2008 and 2007 represent the accumulated results of all past years' operations, which means that if the School District had to pay off all of the bills at June 30, 2008 including all of our non-capital liabilities (compensated absences for example), the School District would have \$6,627,335 left. The decrease in unrestricted net assets of \$680,854 from 2007 to 2008 shows a planned decline in the financial position of the School District. The School District completed three significant capital projects in 2008, which increased the investment in capital assets, while decreasing the unrestricted net assets. These were a major remodeling project in the low bay portion of the Branch Area Careers Center, renovation of a portion of the Waldron Center to allow the special education offices to be relocated to this building, and remodeling of the Fremont Street Early Childhood Center, formerly Franklin High School, which is leased from Coldwater Community Schools, to make the building suitable for early childhood education. Also funds were transferred to local constituent School Districts from the Special Education Fund to support special education transportation and from the Vocational Education Fund to reimburse for the prior year's costs of vocational transportation. Transfers for these purposes had not taken place in recent years. Management continues to closely monitor expenditures and adhere strictly to the budget. The unrestricted net assets decrease is due to these budgeted expenditures.

BRANCH INTERMEDIATE SCHOOL DISTRICT**MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

The results of operations for the School District as a whole are reported in the Statement of Activities, which shows the changes in net assets for fiscal years 2006-07 and 2007-08.

Changes in Net Assets

	Year Ended June 30,	
	2008	2007
Revenues		
Program revenues		
Charges for services	\$ 965,132	\$ 1,155,745
Operating grants and contributions	4,512,257	4,516,328
General revenues		
Property taxes	9,381,436	8,863,744
State aid not restricted for specific purposes	3,808,989	4,140,549
Interest and investment earnings	262,996	331,872
Other general revenues	(10,733)	28,789
Total revenues	18,920,077	19,037,027
Functions/Program Expenses		
Instruction	9,660,219	9,103,620
Support services	7,274,374	7,086,529
Community services	1,574,423	1,514,198
Other school districts	368,440	-
Depreciation unallocated	241,057	183,954
Total expenses	19,118,513	17,888,301
Increase (decrease) in net assets	\$ (198,436)	\$ 1,148,726

As reported in the Statement of Activities, the cost of all of our governmental activities was \$19,118,513 and \$17,888,301 for 2008 and 2007, respectively. Comparison of the two years shows that the cost of governmental activities was increased by \$1,230,212. A portion of the costs of governmental activities, \$965,132 for 2008 and \$1,155,745 for 2007, was paid by those who benefited from the programs. Other governments and organizations subsidized certain programs with grants and contributions in the amount of \$4,512,257 in 2008 and \$4,516,328 in 2007. For 2008, \$13,641,124 of the cost (\$19,118,513 - \$965,132 - \$4,512,257 = \$13,641,124) remained to be financed by general revenues. The cost to be financed by general revenues increased by \$1,424,896 for 2008 since \$12,216,228 of the cost (\$17,888,301 - \$1,155,745 - \$4,516,328 = \$12,216,228) remained to be financed by general revenues in 2007. The School District paid for the remaining "public benefit" portion of our governmental activities in 2008 with \$9,381,436 (\$8,863,744 in 2007) in property taxes, \$3,808,989 (\$4,140,549 in 2007) in state aid that was not restricted, with our other revenues of \$252,263 (\$360,661 in 2007), including interest on investment earnings.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

In the table below, we have presented the cost of each of the School District's major functions - instruction, support services, community services, other school districts, and unallocated depreciation, as well as each program's net cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the School District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

	June 30, 2008		June 30, 2007	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 9,660,219	\$ 7,573,885	\$ 9,103,620	\$ 7,207,056
Support services	7,274,374	5,461,046	7,086,529	4,883,005
Community services	1,574,423	(3,304)	1,514,198	(57,787)
Other School districts	368,440	368,440	-	-
Depreciation unallocated	241,057	241,057	183,954	183,954
Total	<u>\$ 19,118,513</u>	<u>\$ 13,641,124</u>	<u>\$ 17,888,301</u>	<u>\$ 12,216,228</u>

The School District originally projected a smaller change in net assets than the actual decrease at year end. Total net assets decreased by \$198,436. The decrease in net assets occurred mainly because of mid-year budget changes in the Special Education Fund. A \$289,541 transfer to Coldwater Community Schools to support the special education transportation consortium serving the School District's three constituent local school districts was added to the expenditure budget. Also, health insurance costs in the School District's partially self-insured plan were significantly higher than the prior fiscal year, due to higher claims, which impacts the Special Education Fund more than the other funds because the fund includes more staff positions. However, the original budget adequately anticipated the health insurance cost increase. In the Vocational Education Fund, the original budget was adjusted to include transfers to the constituent local School Districts of \$78,899 to reimburse the costs of vocational education transportation. Decreases in other categories of the vocational education expenditure budget more than offset the transfer to the constituent local School Districts. At year end, the Vocational Education Fund added to net assets slightly rather than decreasing net assets. The General Fund, due to the fact that it mostly included grant-funded programs, as usual, had minimal impact on the change in net assets.

The School District's Funds

As we noted earlier, the Branch Intermediate School District uses funds to help it control and manage money for particular purposes. Looking at funds helps you consider whether the School District is being accountable for the resources taxpayers and others provide to it but may also give you more insight into the Branch Intermediate School District's overall financial health.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

As the School District completed this year; our governmental funds reported a combined fund balance of \$7,263,033, which is a decrease of \$1,212,478 from last year. The primary reasons for these decreases are:

Our General Fund is primarily grant funded. Therefore, typically the General Fund does not have as much impact on the change in the combined fund balance as some of the other funds do. The General Fund includes our early education programs like Head Start, Michigan School Readiness, the Family Success Program, and other grants such as the My Dream Explorer grant, for which the School District acts as fiscal agent for the Michigan Virtual University. Also, cooperative programming run for the benefit of our local constituent School Districts is included in the General Fund. These programs include: Branch County summer school, cooperative computer technician services, talent development programming, and others. The General Fund had a decrease in fund balance of \$6,765. This is \$10,476 less in fund balance than projected in the original budget. The School District continues to require most early education program expenditures to be completely covered with grant revenue. Generally early education programs do not impact the fund balance. Therefore, the non-grant revenue and the services funded outside of grants in the General Fund were responsible for the drop in the fund balance. A decrease in actual earnings on investments and constituent local School District support, based on usage, of the computer technician, compared to the amounts included in the original budget, were two factors contributing to this change.

Our Vocational Education Fund had a \$3,835 increase in its fund balance. This increase in fund balance is \$75,373 greater than the decline of \$71,538 projected in the original budget. The original budget included some funds for personnel devoted to credit recovery, which were not expended. By careful monitoring of expenditures, in most categories of the budget, actual expenditures came in under budgeted amounts. This was particularly the situation in the operations and maintenance category. These changes were sufficient to allow a transfer to the constituent local School Districts of \$78,899 to reimburse for the cost of vocational education transportation, which had not occurred in the past, and still in the same year improve the ending fund balance.

In our Special Education Fund, the largest decrease in fund balance of \$666,365 was reported. The original budget projected only a \$183,382 decrease in fund balance, so the decline was \$482,983 more than expected at the beginning of the fiscal year. There were two significant changes made in the expenditure budget during the year. First, a transfer to Coldwater Community Schools of \$289,541 to support the special education transportation consortium of constituent local School Districts was added to the expenditure budget. Also, \$254,457 additional capital outlay was expended in operations and maintenance beyond the amount included in the original budget. The capital outlay budget was increased mid-year to allow for the renovation of the south end of the Waldron Center, turning classrooms into offices to allow the special education offices to move out of their separate building on Bishop Avenue, consolidating more of the special education operation into a single facility. Revenue also fell short of original projections. Revenue from local sources was down by \$92,463 in areas such as earnings on investments, industrial facilities taxes, and Medicaid fee for service program. Revenue from state sources also was \$193,634 short, mainly due to an unexpected drop in special education student enrollment, which decreased the foundation allowance school in aid.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Analysis of Differences between Original and Final Budgeted Amounts and Between Actual and Budgeted Amounts

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 30, 2008. (A schedule showing the School District's original and final budget amounts compared with actual amounts is provided in this annual report).

General Fund Budgetary Highlights

Because interest rates remained rather low during the fiscal year, earnings on investments were approximately \$6,000 less than projected at the beginning of the year.

Because the two local School Districts that actively participate in the computer technician consortium, made less use of the technician in 2007-08 than in the previous year, more of his time was freed up to perform services for Branch ISD. Since the portion of the costs of the position assumed by each School District is based on actual usage, this change resulted in the School District obtaining \$16,584 less reimbursement from the local School Districts for the position than had been projected.

The renovation of the former Franklin High School, leased effective July 1, 2007 from Coldwater Community Schools, into the Fremont Street Early Childhood Center was the major capital outlay project in the 2007-08 General Fund budget. The cost of the project was very close to the original projection, as operational and maintenance capital outlay expenditures in the General Fund were \$114,488 which was only \$1,488 more than the \$113,000 projected expense at the start of the year.

The family success program added a half-time school-year secretary at the newly opened Fremont Street Early Childhood Center. This position, which was not in the original budget, was requested by special education, which moved an early childhood developmental delay classroom to the building shortly after it opened. The Special Education Fund covered the cost of this position by means of an end of the year transfer into the General Fund.

Since Coldwater Community Schools decided not to purchase a new special education bus, for which there was a commitment by Branch ISD to cover the cost of the bus by using the Durant case settlement money, the full amount of the Durant case payment received from the State of Michigan was deferred into a future fiscal year, and no transfer of funds to the Special Education Fund for the ultimate transfer to Coldwater Community Schools was made.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Special Education Fund Budgetary Highlights

Because interest rates remained rather low during the fiscal year, earnings on investments were approximately \$19,500 less than projected at the beginning of the year.

At the beginning of the year, industrial facilities taxes were expected to increase slightly from the prior year. Instead of growing, industrial facilities taxes received were \$18,751 less than 2006-07 and \$23,427 short of the original projection.

Due to numerous program changes and uncertainties in the Medicaid fee for service program, the local Medicaid revenue was only \$464,779 which was \$35,221 short from the \$500,000 that was budgeted at the beginning of the year. The revenue drop from the prior year, of \$133,914 was even larger because \$598,693 had been received in the 2006-07 year. Medicaid pupil transportation payments were also less than the \$31,000 projected at the start of the year, coming in at \$22,218 or \$8,782 less than projected. However, the projected \$25,000 for the Medicaid administrative outreach program, was too conservative of a projection. \$33,005 or \$8,005 more than projected, was received.

The special education pupil count for state aid, which represents 75% of the September 2007 count and 25% of the February 2007 count, was 31.89 pupils less than expected, reducing membership state aid by nearly \$230,000. The drop in the September 2007 special education pupil count, compared to September 2006, was unexpectedly large, when 43.54 pupils, which is approximately 13% of the pupil membership was lost.

A 15% increase in the projected cost of the School District's partially self-funded health insurance plan turned out to be accurate. In recent prior years, the health insurance claims paid were under the projected amounts, but that was not the case in 2007-08. While all funds were impacted by the increase in health insurance costs, the Special Education Fund, which has a very high percentage of its expenditures in salaries and fringe benefits, in particular was impacted by higher costs in the partially self-funded health insurance program.

The operational and maintenance capital outlay budget was increased during the year to allow for the renovation of the south end of the Waldron Center. Classrooms were changed into offices, so there could be a consolidation of special education operations by the move of special education offices from another nearby building into the Waldron Center. Total operational and maintenance capital outlay expenses totaled \$301,767 which was \$254,457 more than the \$47,310 budgeted in this category at the beginning of the year.

Mid-year it was determined that \$289,541 would be transferred to Coldwater Community Schools to support the special education pupil transportation consortium run by Coldwater Schools on behalf of all the constituent local School Districts. This transfer was not included in the original budget.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Vocational Education Fund Budgetary Highlights

Because interest rates remained rather low during the fiscal year, earnings on investments were approximately \$29,474 less than projected at the beginning of the year.

State aid for Section 61.1 for added costs of vocational-technical programs was \$79,669 less than the original budgeted amount, due to an unexpected change in the allocation among the School Districts within the region, \$184,291 was received rather than the \$263,960 originally projected, which was based on an expectation of no change from the amount received in 2006-07.

The actual Section 61a.2 State Aid amounted to \$5,625 for vocational-technical administration and was only \$217 more than projected. Also very close to the original projection was section 62 State Aid for vocational education millage equalization of \$167,600 which was \$3,385 more than projected.

The number of out-of-district pupils attending the Branch Area Careers Center on a tuition basis from schools outside of Branch ISD continued to grow as \$251,222 in tuition revenue was received compared to \$226,950 received in 2006-07. The original projection for 2007-08 was \$221,000. Since the tuition rate remained unchanged, the increased revenue is due to an increase in tuition pupils.

Although the two new academic consultant positions included in the original budget were filled, there were some funds identified for personnel working in the area of credit recovery, which was later eliminated from the budget, after a determination was made to address the need in another way.

Capital outlay costs were kept \$59,609 under the original budget of \$267,877. Total capital outlay expenditures for the year totaled \$208,268.

The Board of Education approved for the first time reimbursement of the costs of vocational education transportation for the constituent local School Districts. A total of \$78,899 was transferred to the School Districts to reimburse transportation costs. This transfer was not included in the budget adopted prior to the start of the fiscal year.

Food Service Fund Budgetary Highlights

The student participation in the lunch program at Dorothy Legg, Waldron, and Fremont Street Early Childhood Centers was up compared to the prior year, resulting in more local and federal revenue, which enabled the School District to reduce the support of the program from the Special Education Fund, via an end of the year transfer, from an expected \$4,796 to an actual transfer of only \$2,891.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Vocational Education Capital Projects Fund Budgetary Highlights

A farm machinery storage pole barn for the natural resources and agriculture technologies program was constructed on the Branch Area Careers Center farm. A significant renovation of the low bay portion of the Branch Area Careers Center including replacement of ceilings and lights, mechanical system updates, and switching the locations of the offices and the computer lab, which started in the prior fiscal year, was completed early in 2007-08. A smaller renovation project at the Branch Area Careers Center, involving replacement of two trench drains in the automotive technologies shop, complete renovation of the high bay restrooms/locker rooms and repair of the exterior brick on the building including the installation of decorative stone as necessary where brick was removed, was undertaken late in the fiscal year and was in progress at year end.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2008, the School District had over \$12.7 million invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net increase (including additions, deductions, but before the deduction of accumulated depreciation) of \$1,178,897, or 10.2 percent, from last year.

Capital Assets at Year-End

	June 30, 2007	Additions	Retirements	June 30, 2008
Land and buildings	\$ 7,353,767	\$ 1,354,222	\$ 11,332	\$ 8,696,657
Furniture and equipment	4,092,409	328,289	407,434	4,013,264
Construction in progress	148,397	63,549	148,397	63,549
Total	<u>\$ 11,594,573</u>	<u>\$ 1,746,060</u>	<u>\$ 567,163</u>	<u>\$ 12,773,470</u>

This year's additions of \$1,746,060 included among other items, numerous computers (desktops, laptops, and server), printer, wireless towers, personal computer trainers, 48 passenger bus, farm machinery storage pole barn, hot cart for food, subcompact diesel tractor with blade and mower, mobile bench changer, fuel system cleaning center, bulk animal feed bin, sound field system for hearing impaired, duplicating machine, 911 simulation dispatch system, welder, hydraulic press, downdraft table, nine panel partition, vehicle hoist, solvent recycler, horizontal band saw, surveillance camera, pull-behind mower, fence, cabinets, mini-van, renovations at the Fremont Street Early

Childhood Center, replacement of roofs on two special education buildings, remodeling at Waldron Center including student restrooms and conversion of classrooms into offices, remodeling at the Branch Area Careers Center including replacement of victaulic piping, new front entrance, switching locations of office and computer lab, and changes to the heating system. The construction in progress is the Branch Area Career Center repair of exterior brick, replacement of two trench drains in the automotive technologies shop, and the renovation of the high bay restrooms/locker rooms.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

No debt was issued for these additions. The retirements of \$567,163 included among other items, two school buses, printer, duplicator, diesel tractor, band saw, hay bailer, welders, milling machine, automotive solvent recovery system, vehicle hoist, alpha electronics system, Braille embosser, field sprayer, chisel plow, refrigerators, gravity box, time clock, digital readout system, hydraulic two station trolley, wheel-about with trays, oscilloscopes, awning, sign, electric door opener, trailer, two mini-vans, and numerous computers all of which were out-dated and/or ill-suited to provide safe and appropriate services to the School District.

For the fourth year in a row, a renovation project at the Branch Area Careers Center was partially completed at year end. This renovation project, which is relatively small compared to the renovation projects done in the prior three summers, is anticipated to be completed in early 2008-2009. This project includes updating the restrooms and locker rooms in the high bay section of the building, replacement of two trench drains in the floor of the automotive technology shop, and repair of exterior brick including the installation of decorative stone where brick must be removed for repairs to be accomplished. During the summer of 2008, along with numerous asphalt repairs, the asphalt in two of the parking lanes in front of the Branch Area Careers Center will be replaced. An additional asphalt replacement project in the summer of 2009 at the Branch Area Careers Center may be considered. We present more detailed information about our capital assets in the Notes to the Financial Statements.

Debt

At the end of this year, the School District had \$326,093 in bonds outstanding, representing no change from the prior year. These bonds, issued as part of the Durant vs. State of Michigan settlement, were refinanced by the State of Michigan during the 2002-03 year resulting in a revised payment schedule that included no principal or interest payments in 2002-03 through 2004-05. The State of Michigan resumed principal and interest payments in 2005-06, but then the State refinanced for a second time, resulting in another revised payment scheduled that included no principal or interest payment in 2006-07 and 2007-08. The State of Michigan in the State School Aid Act appropriates funds to cover the principal and interest due each year.

Outstanding Debt at Year-End

	June 30,	
	2008	2007
School Improvement Bonds (Durant)	<u>\$326,093</u>	<u>\$326,093</u>

Other obligations include accrued vacation pay, and also sick, personal and annual leave. We present more detailed information about our long-term liabilities in the Notes to the Financial Statements.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Economic Factors and Next Year's Budgets

The taxable value of the School District increased by 4.11% for 2008-09, compared to the 6.36% increase for 2007-08. Declining property values in some classes of property, particularly residential, are creating concern that in the future the trend in taxable value increases will continue on its downward trajectory, and possibly taxable values might decline rather than increase. The gap between the taxable value and the state equalized valuation of properties that have not changed ownership for some time, does provide the School District with some protection from the possibility of declining taxable value. Also in some property classes, agriculture for example, it appears that property values are not in decline. Because the taxable value of the School District is a critical factor in the determination of the School District's financial health, the administration, which has no control over the establishment of taxable value, is carefully monitoring the annual taxable value change.

No additional reduction of millage was required by the Headlee Amendment to the Michigan Constitution for both 2007-08 and 2008-09. In all three funds, the millage that the School District can levy has been permanently reduced due to compounding millage reductions required in nine of the last eleven years. The cumulative impact is that the total millage levied by the School District is 1.3439 mills less than was authorized originally by the electorate, and hence the revenue from property taxes is less than the revenue generated if the originally authorized millage rate could be levied.

Although the 2008-09 state school aid act does provide a small increase in revenue for the School District, the slow state-wide economy requires careful monitoring of state revenue to be certain that the state has the ability to fully fund the state aid act. Although there was no state aid proration in 2007-08, via an executive order reduction in state aid, and none is predicted for 2008-09, ongoing problems in the state economy, leave open the possibility of an executive order cut in state aid if state revenues do not meet projections, leaving the state with insufficient funds available to support local and intermediate schools at the level stated in the state aid act.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

In the summer of 2007 Branch ISD completed remodeling of the former Franklin High School building, now renamed the Fremont Street Early Childhood Center, which is leased from Coldwater Community Schools for a ten year period effective July 1, 2007. Several early childhood programs, Head Start, Early On, Family Success, and one special education early childhood developmental delay program, moved into the building in early 2007-08. The School District also remodeled a portion of the Waldron Center, turning classrooms into offices. This allowed the special education offices to move out of the School District owned office building at 200 Bishop Avenue and into the new offices at the Waldron Center. The vacant offices at 200 Bishop were quickly filled by the early education offices, which had been located in a leased facility on Willowbrook Road. With these changes, special education is expected to reduce its operational expenses by no longer being responsible for the operational expenses associated with the 200 Bishop Avenue building. While the early education service area assumed the operational expenses of the 200 Bishop Avenue building, it too is expected to have reduced operational expenses with the elimination of the operational expenses and lease payments for the Willowbrook Road facility. With rapidly increasing utility costs, the School District continues to investigate and implement changes that limit or reduce the cost of facility operation and reduce the School District's reliance on facilities leased from private entities, and therefore free up money presently spent on facility leases for provision of educational services.

Maintaining funding for the early childhood family success program continues to be challenging. The support provided to the program by the Branch County United Way did increase from \$12,000 to \$15,000 but the support is still less than the \$20,000 provided in 2006. Several other small grants, both state and federal, pay for portions of the program's expenses. The School District remains committed to providing as many services to the community as possible through this program, dependent on the amount of funding through multiple grants that can be obtained.

In vocational education, the separate diesel mechanics program will be eliminated effective with the 2008-09 school year. Although some of the curriculum will be taught in the automotive technologies program at the Branch Area Careers Center, maintaining separate automotive technologies and diesel mechanics programs was determined to be no longer financial feasible due to lower student enrollment in the programs. One teaching position was eliminated through attrition. Although a paraprofessional position was added, overall costs were still reduced.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The School District was required to bear some huge increases in the cost of health insurance provided to its staff, such as the July 1, 2003 increase of nearly 40% in the cost of family health insurance, the School District changed to a partially self-funded method of financing health insurance effective July 1, 2004. Also, effective on July 1, 2004, the board pays for single membership health insurance for new non-certified employees, requiring them to pay the additional cost of coverage for spouse and/or family if needed. The health insurance deductible was increased on January 1, 2005, and a second increase took place on January 1, 2006. In the first three years the partial self-funded method of funding health insurance, as anticipated, slowed the rate of escalation in the cost of health insurance. The change in total costs for health insurance for 2004-05, 2005-06, and 2006-07 compared to the prior year were 3.66%, -12.82%, and 7.83% respectively. 2007-08 did not follow the trend of the prior three years in that claims were very high, causing costs to rise approximately 15% compared to 2006-07. It is anticipated that 2007-08 was not a typical year, and therefore the 7.4% increase budgeted for 2008-09 should be adequate. The administration does recognize that there continues to be more risk and less stability, involved in partial self-funding of health insurance. With four years of experience under the plan, the School District remains committed to the funding arrangement because it appears that in the long term the costs have been less than they would have been under a fully insured plan.

Also, effective on October 1, 2008 the rate that all Public School Districts in Michigan must pay as a percentage of gross employee wages into the Michigan Public School Employees Retirement Fund will decrease from the present 16.72% to 16.54%, which represents a decline in costs of 1.08%. The retirement rate also declined on October 1, 2007, making this the second year in a row that the rate has dropped, following three years of large increases in the rate. Long range projections of the retirement rate project significant additional increases in the rate.

In recent years, because of the escalating cost of health insurance and mandated retirement contributions, fringe benefits have been one of highest growth items in the School District's budget. Approximately 80% of all School District expenditures are personnel costs: salaries and fringe benefits. The School District has chosen to contract for certain non-instructional services, as permitted by law, in order to reduce overall costs, in particular costs of fringe benefits. The movement to contracted services has not lessened the School District's commitment to maintaining service levels. When current non-instructional staff leave School District employment, through retirement or for other reasons, or contracting arrangements end, the School District will evaluate the alternatives of providing the service through contractors or hiring employees. In evaluating these options, consideration will be given to how to best to provide the service cost effectively while maintaining a high quality of service. Recently, the School District chose to end some contracted services arrangements and hire employees, which provides evidence that the School District is not firmly committed to either method of providing services, and will evaluate the options based on changing circumstances.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The continuing high cost of energy impact costs in several areas in the new fiscal year. The cost of operating the Head Start bus fleet has increased due to the high cost of diesel fuel, which went up by approximately 35% from 2006-07 to 2007-08. Also, the cost of heating the District's buildings, which are mostly heated with natural gas, increased approximately 24% in 2007-08 compared to the prior year. The District is experiencing increasing costs in other areas, related to the higher cost of energy, putting additional stress on the School District budget.

Through the use of the Vocational Education Capital Projects Fund, it is anticipated that additional asphalt replacement projects will be undertaken on the vocational education campus. No new facilities or major facility remodeling projects are anticipated for the 2008-09 fiscal year.

Contacting the School District's Financial Management

Our financial report is designed to provide our citizens, taxpayers, parents, and students with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact Michael V. Beckwith, Superintendent, or Gary C. Crandall, Business Manager, at Branch Intermediate School District, 370 Morse Street, Coldwater, Michigan 49036, telephone (517) 279-5730.

BRANCH INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalent investments	\$ 7,956,591
Receivables	
Taxes	119,604
Accounts receivable	12,400
Due from other governmental units	1,533,206
Inventory	326,910
Prepaid expenses	323,593
Capital assets less accumulated depreciation of \$6,590,942	<u>6,182,528</u>
 Total assets	 16,454,832
LIABILITIES	
Accounts payable	260,870
Salaries payable	1,242,521
Accrued expenditures	406,777
Deferred revenue	1,052,695
Due to other governmental units	46,408
Long term liabilities	
Bonds payable, due in more than one year	326,093
Compensated absences	<u>265,819</u>
 Total liabilities	 3,601,183
NET ASSETS	
Investment in capital assets - net of related debt	5,856,435
Restricted	369,879
Unrestricted	<u>6,627,335</u>
 Total net assets	 <u><u>\$ 12,853,649</u></u>

See Notes to Financial Statements

BRANCH INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating / Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 9,660,219	\$ 350,664	\$ 1,735,670	\$ (7,573,885)
Support services	7,274,374	614,468	1,198,860	(5,461,046)
Community services	1,574,423	-	1,577,727	3,304
Other school districts	368,440	-	-	(368,440)
Depreciation unallocated	241,057	-	-	(241,057)
Total governmental activities	<u>\$ 19,118,513</u>	<u>\$ 965,132</u>	<u>\$ 4,512,257</u>	(13,641,124)
General revenues:				
Property taxes, levied for general purposes				9,381,436
State aid not restricted for specific purposes				3,808,989
Interest and investment earnings				262,996
Other				<u>(10,733)</u>
Total general revenues				<u>13,442,688</u>
Change in Net Assets				(198,436)
Net Assets - Beginning				<u>13,052,085</u>
Net Assets - Ending				<u><u>\$ 12,853,649</u></u>

BRANCH INTERMEDIATE SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2008

	General Fund	Vocational Education Fund	Special Education Fund	Vocational Education Capital Projects Fund
ASSETS				
Cash and cash equivalent investments	\$ 1,229,865	\$ 2,902,969	\$ 3,404,901	\$ 418,750
Taxes receivable	2,500	61,369	55,735	-
Accounts receivable	20	5,970	6,340	-
Due from other governmental units	694,828	137,838	699,994	-
Due from other funds	16,307	1,654	-	-
Inventory	-	326,910	-	-
Prepaid expenses	41,917	215,352	66,199	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,985,437</u>	<u>\$ 3,652,062</u>	<u>\$ 4,233,169</u>	<u>\$ 418,750</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 60,930	\$ 52,963	\$ 97,454	\$ 48,871
Salaries payable	24,116	334,691	883,557	-
Accrued expenditures	17,623	106,994	282,122	-
Deferred revenue	1,010,931	5,619	36,145	-
Due to other governmental units	-	-	46,408	-
Due to other funds	574	32	17,355	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	1,114,174	500,299	1,363,041	48,871
FUND BALANCE				
Designated	-	-	-	369,879
Undesignated	871,263	3,151,763	2,870,128	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balance	871,263	3,151,763	2,870,128	369,879
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 1,985,437</u>	<u>\$ 3,652,062</u>	<u>\$ 4,233,169</u>	<u>\$ 418,750</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds		
Food Service	Totals	
\$ 106	\$ 7,956,591	
-	119,604	
70	12,400	
546	1,533,206	
-	17,961	
-	326,910	
125	323,593	
<u>\$ 847</u>	<u>\$ 10,290,265</u>	

\$ 652	\$ 260,870	
157	1,242,521	
38	406,777	
-	1,052,695	
-	46,408	
-	17,961	
<u>847</u>	<u>3,027,232</u>	
-	369,879	
-	6,893,154	
<u>-</u>	<u>7,263,033</u>	
<u>\$ 847</u>	<u>\$ 10,290,265</u>	

BRANCH INTERMEDIATE SCHOOL DISTRICT
GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO NET ASSETS
JUNE 30, 2008

Total Fund Balance - Governmental Funds	\$ 7,263,033
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
The cost of the capital assets	12,773,470
Accumulated depreciation	<u>(6,590,942)</u>
Total capital assets not reported in the funds	6,182,528
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(326,093)
Compensated absences	<u>(265,819)</u>
Total long-term liabilities not reported in the funds	<u>(591,912)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 12,853,649</u></u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Vocational Education Fund	Special Education Fund	Vocational Education Capital Project Fund
REVENUES				
Local sources	\$ 275,153	\$ 4,917,038	\$ 5,015,665	\$ 17,630
State sources	1,075,836	673,787	2,910,896	-
Federal sources	1,840,585	108,073	1,725,933	-
Other school districts	60,895	277,921	18,471	-
Total revenues	3,252,469	5,976,819	9,670,965	17,630
EXPENDITURES				
Instruction	247,947	3,008,790	6,240,573	-
Support services	1,483,278	2,275,533	3,331,512	-
Community services	1,569,407	-	11,680	-
Capital outlay	128,834	208,268	369,748	890,813
Other school districts	-	78,899	289,541	-
Total expenditures	3,429,466	5,571,490	10,243,054	890,813
Excess (deficiency) of revenues over expenditures	(176,997)	405,329	(572,089)	(873,183)
OTHER SOURCES (USES)				
Transfers from (to) other funds	170,232	(403,708)	(99,415)	330,000
Sale of fixed assets	-	2,214	5,139	-
Total other sources (uses)	170,232	(401,494)	(94,276)	330,000
Excess (deficiency) of revenues and other sources over expenditures and other uses	(6,765)	3,835	(666,365)	(543,183)
FUND BALANCE - BEGINNING	878,028	3,147,928	3,536,493	913,062
FUND BALANCE - ENDING	<u>\$ 871,263</u>	<u>\$ 3,151,763</u>	<u>\$ 2,870,128</u>	<u>\$ 369,879</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds		
Food Service	Totals	
\$ 3,143	\$ 10,228,629	
215	4,660,734	
13,115	3,687,706	
-	357,287	
16,473	18,934,356	
-	9,497,310	
19,364	7,109,687	
-	1,581,087	
-	1,597,663	
-	368,440	
19,364	20,154,187	
(2,891)	(1,219,831)	
2,891	-	
-	7,353	
2,891	7,353	
-	(1,212,478)	
-	8,475,511	
\$ -	\$ 7,263,033	

BRANCH INTERMEDIATE SCHOOL DISTRICT
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Net change in Fund Balance - Total Governmental Funds	\$ (1,212,478)
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(550,430)
Capital outlay	1,597,663
Net book value of disposed assets	<u>(21,632)</u>
Total	1,025,601
Increases in compensated absences are reported as expenditures when financial resources are used in governmental funds in accordance with GASB Interpretation No. 6	<u>(11,559)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (198,436)</u></u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008

	<u>Student Activities Agency Fund</u>
ASSETS	
Cash and cash equivalent investments	\$ 41,463
LIABILITIES	
Due to student groups	\$ 41,463

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Branch Intermediate School District conform to generally accepted accounting principles in the United States of America as applicable to school districts. The following is a summary of significant policies:

REPORTING ENTITY:

The Board of Education, a five member group, has responsibility for activities relating to vocational and special education within their jurisdiction including, Bronson, Coldwater and Quincy school districts. The Board receives funding from local, state and federal sources and must comply with the requirements of these funding sources. The Board is not a component unit of any other government reporting entity. The Board is elected by the local school districts of Bronson, Coldwater and Quincy and has decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

There were no other governmental entities considered for inclusion with the District as a component unit.

DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS:

The district-wide financial statements, the statement of net assets and the statement of activities, report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree of which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION:

District-wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

BASIS OF PRESENTATION:

MAJOR GOVERNMENTAL FUNDS

General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Vocational Education Fund is used to account for financial resources to be used specifically for providing vocational education services to students within the District.

Special Education Fund is used to account for financial resources to be used specifically for providing special education services to students within the District.

Vocational Education Capital Project Fund is used to account for resources specifically designated for the acquisition and constructions of facilities and for major capital repairs and improvements of facilities.

FIDUCIARY FUNDS

Fiduciary Funds is used to account for assets held by the district in a trustee or agency capacity. Agency funds are custodian in nature, assets equal liabilities, and do not involve measurement of results of operations.

Additionally, the District reports the following nonmajor governmental fund types:

Special Revenue Funds are used to account for the proceeds of specific sources that are restricted to expenditures for specified purposes. The District's nonmajor Special Revenue Fund is the Food Service Fund.

Durant Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and other related costs. There was no activity in this fund for the year ended June 30, 2008. Payments for the Durant Debt Service Fund are totally funded by the State of Michigan

ASSETS, LIABILITIES AND NET ASSETS:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with maturity of three months or less when acquired. Investments are stated at fair value.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS, LIABILITIES AND NET ASSETS – Continued:

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

A policy of writing off uncollected personal property taxes after one year has been adopted.

Inventory and Prepaid items – Inventory is valued at cost, on a first-in, first-out basis. Inventory of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The district defines capital assets as assets with an initial individual cost of more than \$1,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The District does not have infrastructure-type assets.

Buildings, equipment, computers and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-45 Years
Buses and other vehicles	7 Years
Furniture and other equipment	4-10 Years
Computers	3 Years

Compensated Absences – The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS, LIABILITIES AND NET ASSETS – Continued:

Fund Balance – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

BASIS OF BUDGETING:

The District adopted their annual budgets based on the modified accrual method of accounting. Revenues and expenditures were estimated by the individual line item basis, but adopted and amended by the Board of Education by the functional level for each fund. Once a budget is approved, it can be amended at the functional level. Amendments are presented to the Board at their regular meetings. Each amendment must have Board approval. Such amendments are reflected in the official minutes of the Board, and are not made after year end as dictated by State law. Revisions to the budgets were made during the year.

ENCUMBRANCE ACCOUNTING:

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances at year end are reappropriated in the next year. No reservation of fund balance equal to outstanding encumbrances at year end is required.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2008

NOTE B – DEPOSITS AND INVESTMENTS

The District uses financial institutions for cash purposes, which are in accordance with statutory authority. The accounts maintained in the financial institutions are checking, savings and certificates of deposit. The interest rates of the checking and savings accounts are at variable daily rates.

For investment purposes, the District uses a pooled investment account. The pooled investment account is not evidenced by securities that exist in physical book entry form. All investments are in accordance with the Michigan School Code.

The District's cash and investments at June 30, 2008 are as follows:

	Governmental Activities	Fiduciary Funds	Total Government
Cash and investments	<u>\$ 7,956,591</u>	<u>\$ 41,463</u>	<u>\$ 7,998,054</u>

The District has the following investments:

Investments	Fair Value	Weighted Average Maturity (Years)	Standard & Poor's Rating
Michigan Liquid Asset Fund (MICMS)	\$ 23,563	0.0027	AAA m
Michigan Liquid Asset Fund (MIMAX)	<u>1,214,607</u>	<u>0.0027</u>	AAA m
Total Fair Value	<u>\$ 1,238,170</u>		
Portfolio weighted average maturity		<u>0.0027</u>	

1 day maturity equals 0.0027, one year equals 1.00

Interest rate risk – In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2008

NOTE B – DEPOSITS AND INVESTMENTS – Continued

Credit risk – State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). The District does not allow direct investment in commercial paper or corporate bonds.

Concentration of credit risk – The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk deposits – In the case of deposits, this is the risk that in the event of an institutional failure, the District's deposits may not be recovered. As of June 30, 2008, \$8,120,104 of the District's \$8,320,104 of cash and investments was exposed to custodial credit risk because it was uninsured and uncollateralized. Certificates of deposit and money market accounts are included in the above totals.

Foreign currency risk – The District is not authorized to invest in investments which have this type of risk.

NOTE C – TAXES RECEIVABLE

The District's property taxes are levied each December 1, at which time they are recognized as revenue. Taxes are collected by the local governmental units within Branch, St. Joseph and Hillsdale Counties and are either remitted to the County or directly to the District. After February 28 of each year, all uncollected taxes are returned delinquent to the respective county.

The 2007 taxable valuation of the District was \$1,127,054,273.

The 2007 operating tax rates were as follows

General Fund	0.1716
Vocational Education Fund	4.2105
Special Education Fund	<u>3.8240</u>
Total tax rate	<u><u>8.2061</u></u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2008

NOTE C – TAXES RECEIVABLE – Continued

Taxes receivable represent uncollected personal property taxes as follows:

General Fund	\$ 2,500
Vocational Education Fund	61,369
Special Education Fund	<u>55,735</u>
Total taxes receivable	<u>\$ 119,604</u>

As discussed in note A, the District has adopted the policy of writing off uncollected personal property taxes after one year. No provision for uncollectible personal property taxes has been made in these financial statements.

NOTE D – DUE FROM (TO) OTHER FUNDS

The due from (to) other funds, at June 30, 2008, for the District are as follows:

GENERAL FUND

Due from Special Education Fund	\$ 16,275
Due from Vocational Education Fund	<u>32</u>
Total General Fund	16,307

VOCATIONAL EDUCATION FUND

Due from General Fund	574
Due from Special Education Fund	<u>1,080</u>
Total Vocational Education Fund	<u>1,654</u>
Total due from other funds	<u>\$ 17,961</u>

All balances resulted from time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

BRANCH INTERMEDIATE SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2008****NOTE E – TRANSFERS FROM (TO) OTHER FUNDS**

The transfers from (to) other funds, for the year ended June 30, 2008, for the District are as follows:

GENERAL FUND

Transfer from Special Education Fund	\$ 83,775
Transfer from Vocational Education Fund	<u>86,457</u>
Total General Fund	<u><u>\$ 170,232</u></u>

VOCATIONAL EDUCATION FUND

Transfer to General Fund	\$ (86,457)
Transfer to Vocational Education Capital Projects Fund	(330,000)
Transfer from Special Education Fund	<u>12,749</u>
Total Vocational Education Fund	<u><u>\$ (403,708)</u></u>

SPECIAL EDUCATION FUND

Transfer to General Fund	\$ (83,775)
Transfer to Vocational Education Fund	(12,749)
Transfer to Food Service Fund	<u>(2,891)</u>
Total Special Education Fund	<u><u>\$ (99,415)</u></u>

VOCATIONAL EDUCATION CAPITAL PROJECT FUND

Transfer from Vocational Education Fund	<u><u>\$ 330,000</u></u>
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OTHER NONMAJOR FUNDS FOOD SERVICE

Transfer from Special Education Fund	<u><u>\$ 2,891</u></u>
--------------------------------------	------------------------

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2008

NOTE F – CAPITAL ASSETS

Capital asset activity of the District's governmental activities was as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
GROUP:				
Buildings and land	\$ 7,353,767	\$ 1,354,222	\$ 11,332	\$ 8,696,657
Equipment	2,070,333	86,286	154,599	2,002,020
Computers	912,934	155,452	144,176	924,210
Vehicles	1,109,142	86,551	108,659	1,087,034
Construction in progress	148,397	63,549	148,397	63,549
Subtotal	11,594,573	1,746,060	567,163	12,773,470
ACCUMULATED DEPRECIATION:				
Buildings	3,334,418	199,477	7,289	3,526,606
Equipment	1,615,685	123,642	147,501	1,591,826
Computers	757,137	139,614	144,176	752,575
Vehicles	730,406	87,697	98,168	719,935
Total accumulated depreciation	6,437,646	550,430	397,134	6,590,942
Net Capital Assets	<u>\$ 5,156,927</u>	<u>\$ 1,195,630</u>	<u>\$ 170,029</u>	<u>\$ 6,182,528</u>

Depreciation expense was charged to activities of the District as follows:

GOVERNMENTAL ACTIVITIES:	
Instruction	\$ 162,218
Support services	147,155
Unallocated	<u>241,057</u>
Total governmental activities	<u>\$ 550,430</u>

BRANCH INTERMEDIATE SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2008****NOTE G – DEFERRED REVENUE**

Deferred revenue represents unexpended funds as follows:

	General	Vocational Education	Special Education	Total
Advanced and accelerated pupils	\$ 4,196	\$ -	\$ -	\$ 4,196
Michigan school readiness	32,712	-	-	32,712
Technical training	5,262	-	-	5,262
Head start	24,415	-	-	24,415
Great parents / Great start	91,650	-	-	91,650
Durant	333,042	-	-	333,042
Circle of care	859	-	-	859
My dream explorer	491,366	-	-	491,366
Agri-environmental wilderness expedition	-	5,119	-	5,119
Early childhood investment corporation	11,398	-	-	11,398
Medicaid	-	-	33,045	33,045
Miscellaneous	16,031	500	3,100	19,631
Total	<u>\$ 1,010,931</u>	<u>\$ 5,619</u>	<u>\$ 36,145</u>	<u>\$ 1,052,695</u>

NOTE H – LONG-TERM DEBT

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
Governmental Activities:				
Bonds	\$ 326,093	\$ -	\$ -	\$ 326,093
Compensated Absences	254,260	11,559	-	265,819
Total governmental activities	<u>\$ 580,353</u>	<u>\$ 11,559</u>	<u>\$ -</u>	<u>\$ 591,912</u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2008

NOTE H – LONG-TERM DEBT – Continued

General obligation bonds consist of the following:

1998 school improvement bond payment due in annual installments of \$44,279 to \$135,929 through May 15, 2013; interest at 4.76% \$ 326,093

Annual debt service requirements to maturity for the above governmental bond obligation are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 44,279	\$ 11,594	\$ 55,873
2010	46,385	9,485	55,870
2011	48,595	7,277	55,872
2012	50,905	4,963	55,868
2013	<u>135,929</u>	<u>31,671</u>	<u>167,600</u>
Total	<u><u>\$ 326,093</u></u>	<u><u>\$ 64,990</u></u>	<u><u>\$ 391,083</u></u>

NOTE I – SELF FUNDED INSURANCE POOL

The District participates in a entity risk pool for health insurance. The pool is through Blue Cross-Blue Shield of Michigan. This pool provides for insurance coverage based on the group of employees enrolled at the Branch Intermediate School District. Should the pool experience significant losses in the aggregate, the District may be required to pay additional monies to the pool. The premiums are evaluated every three months and new premium amounts set on historical data of claims filed. At present Blue Cross – Blue Shield of Michigan has not required large additional funds. Premiums for the year ended June 30, 2008 were \$2,075,874 and the District is not aware of any significant amounts of claims payable at year end.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2008

NOTE J – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts, errors and omissions, injuries to employee's and natural disasters. The District participates in two distinct pools of education institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subjected to special assessment to make up the deficiency. Each of the pools maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required. The District continues to carry commercial insurance for other risk.

NOTE K – RETIREMENT PROGRAM

Plan Description – The District contributes to the statewide Michigan Public School Employee's Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine-member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111. The MPERS does not make separate measurements of assets and pension benefit obligations for individual districts.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2008

NOTE K – RETIREMENT PROGRAM - Continued

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2008 were 17.74% of payroll for the first quarter and 16.72% through the remainder of the fiscal year. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2008, 2007 and 2006 were \$1,552,714, \$1,650,655, and \$1,549,670, respectively, equal to the required contribution for the year.

The District is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Other Post employment Benefits – Under MPSERS' Act all retirees have the option of continuing health, dental and vision coverage. These benefits are not included in the pension benefit obligation referred above.

NOTE L – ADMINISTRATIVE FRINGE BENEFITS

The District allows administrative employees the option to receive tax sheltered annuity or a split-dollar life insurance policy.

TAX SHELTERED ANNUITY:

The district has a tax sheltered annuity program qualified under Section 403(b) of the Internal Revenue Code. The District makes employer contributions for eligible administrative employees.

SPLIT-DOLLAR LIFE INSURANCE:

Under the split-dollar life insurance program, the District pays the premiums and receives upon termination of the policy or the death of the insured, the total premiums paid on the policy and the insured designates a beneficiary to receive the balance of the benefits.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2008

NOTE M – DONATED SERVICES AND MATERIALS

The District participates in numerous Federal and state grant programs, which are governed by various rules and regulations of the grantor agencies. Various programs require the District to provide a local match through in-kind donated services or materials. These donated services and materials lack objective measurable basis for determining fair value, and accordingly, are not reflected as revenues and expenditures in these financial statements.

NOTE N – COMMITMENTS

The District has entered into contracts with various firms for the construction and renovation of the Branch Area Career Center. As of June 30, 2008, costs to complete the construction renovation are estimated at approximately \$211,000.

BRANCH INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
REVENUES			
Local sources	\$ 282,834	\$ 297,309	\$ 275,152
State sources	1,564,011	1,653,914	1,075,836
Federal sources	1,879,493	1,868,630	1,840,586
Other school districts	<u>76,526</u>	<u>63,594</u>	<u>60,895</u>
Total revenues	3,802,864	3,883,447	3,252,469
EXPENDITURES			
Instruction	272,721	283,107	247,947
Support services	1,865,648	2,055,911	1,483,278
Community services	1,597,589	1,588,396	1,569,407
Capital outlay	117,800	129,837	128,834
Other school districts	<u>18,772</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>3,872,530</u>	<u>4,057,251</u>	<u>3,429,466</u>
Excess (deficiency) of revenues over expenditures	(69,666)	(173,804)	(176,997)
OTHER SOURCES			
Transfers from other funds	72,877	174,485	170,232
Sale of fixed assets	<u>500</u>	<u>-</u>	<u>-</u>
Total other sources	<u>73,377</u>	<u>174,485</u>	<u>170,232</u>
Excess (deficiency) of revenues and other sources over expenditures	3,711	681	(6,765)
FUND BALANCE - BEGINNING	<u>880,245</u>	<u>878,028</u>	<u>878,028</u>
FUND BALANCE - ENDING	<u><u>\$ 883,956</u></u>	<u><u>\$ 878,709</u></u>	<u><u>\$ 871,263</u></u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
VOCATIONAL EDUCATION FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
REVENUES			
Local sources	\$ 4,954,281	\$ 4,921,321	\$ 4,917,038
State sources	746,701	673,765	673,787
Federal sources	108,173	108,073	108,073
Other school districts	253,176	283,021	277,921
Total revenues	6,062,331	5,986,180	5,976,819
EXPENDITURES			
Instruction	3,112,609	3,056,733	3,008,790
Support services	2,369,599	2,314,734	2,275,533
Capital outlay	267,877	217,387	208,268
Other school districts	-	81,166	78,899
Total expenditures	5,750,085	5,670,020	5,571,490
Excess of revenues over expenditures	312,246	316,160	405,329
OTHER SOURCES (USES)			
Transfers from (to) other funds	(406,784)	(403,708)	(403,708)
Sale of fixed assets	23,000	2,214	2,214
Total other sources (uses)	(383,784)	(401,494)	(401,494)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(71,538)	(85,334)	3,835
FUND BALANCE - BEGINNING	3,079,553	3,147,928	3,147,928
FUND BALANCE - ENDING	<u>\$ 3,008,015</u>	<u>\$ 3,062,594</u>	<u>\$ 3,151,763</u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
SPECIAL EDUCATION FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		
	Original	Final	Actual
REVENUES			
Local sources	\$ 5,108,128	\$ 5,025,479	\$ 5,015,665
State sources	3,104,530	2,905,307	2,910,896
Federal sources	1,769,400	1,901,295	1,725,933
Other school districts	27,868	18,471	18,471
Total revenues	10,009,926	9,850,552	9,670,965
EXPENDITURES			
Instruction	6,493,840	6,330,597	6,240,573
Support services	3,450,494	3,531,967	3,331,512
Community services	16,537	13,840	11,680
Capital outlay	150,010	391,196	369,748
Other school districts	83,038	289,541	289,541
Total expenditures	10,193,919	10,557,141	10,243,054
Excess (deficiency) of revenues over expenditures	(183,993)	(706,589)	(572,089)
OTHER SOURCES (USES)			
Transfers from (to) other funds	(889)	(105,454)	(99,415)
Sale of fixed assets	1,500	5,139	5,139
Total other sources (uses)	611	(100,315)	(94,276)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(183,382)	(806,904)	(666,365)
FUND BALANCE - BEGINNING	3,401,300	3,536,493	3,536,493
FUND BALANCE - ENDING	<u>\$ 3,217,918</u>	<u>\$ 2,729,589</u>	<u>\$ 2,870,128</u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
VOCATIONAL EDUCATION CAPITAL PROJECT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
REVENUES			
Local sources	\$ 5,000	\$ 17,000	\$ 17,630
EXPENDITURES			
Capital outlay	<u>950,457</u>	<u>1,235,916</u>	<u>890,813</u>
Excess (deficiency) of revenues over expenditures	(945,457)	(1,218,916)	(873,183)
OTHER SOURCES			
Transfers from other funds	<u>330,000</u>	<u>330,000</u>	<u>330,000</u>
Excess (deficiency) of revenues and other sources over expenditures	(615,457)	(888,916)	(543,183)
FUND BALANCE - BEGINNING	<u>650,193</u>	<u>913,062</u>	<u>913,062</u>
FUND BALANCE - ENDING	<u><u>\$ 34,736</u></u>	<u><u>\$ 24,146</u></u>	<u><u>\$ 369,879</u></u>

BRANCH INTERMEDIATE SCHOOL DISTRICT

**INTERNAL CONTROL AND
FEDERAL GRANT REPORTS**

JUNE 30, 2008

CONTENTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

**Board of Education
Branch Intermediate School District
Branch County, Michigan**

September 8, 2008

We have audited the financial statements, the governmental activities, each major fund and the aggregate remaining fund information of Branch Intermediate School District as of and for the year ended June 30, 2008, which collectively comprise Branch Intermediate School District's basic financial statements and have issued our report thereon dated September 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by Comptroller General of the United States.

Internal Control Over Financial Reporting: In planning and performing our audit, we considered Branch Intermediate School District's internal control over financial reporting as a basis for designing our auditing procedures for purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Branch Intermediate School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Branch Intermediate School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Branch Intermediate School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Branch Intermediate School District's financial statements that is more than inconsequential will not be prevented or detected by the Branch Intermediate School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Branch Intermediate School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters: As part of obtaining reasonable assurance about whether Branch Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Governmental Auditing Standards.

This report is intended solely for the information and use of the management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, appearing to read "Rumsey & Watkins P.C.", is positioned above the firm's name.

RUMSEY & WATKINS, P.C.

Rumsey & Watkins, P.C.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

**Board of Education
Branch Intermediate School District
Branch County, Michigan**

September 8, 2008

Compliance: We have audited the compliance of Branch Intermediate School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Branch Intermediate School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Branch Intermediate School District's management. Our responsibility is to express an opinion on Branch Intermediate School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Branch Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide legal determination on Branch Intermediate School District's compliance with those requirements.

In our opinion, Branch Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance: The management of Branch Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Branch Intermediate School District's internal control over compliance with requirements that could have a direct material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the effectiveness of Branch Intermediate School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of expenditures of Federal awards: We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Branch Intermediate School District as of and for the year ended June 30, 2008, and have issued our report thereon dated September 8, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**Board of Education
Branch Intermediate School District**

September 8, 2008

This report is intended for the information and use of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Rumsey & Watkins P.C.".

RUMSEY & WATKINS, P.C.

BRANCH INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2008

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Program or Award Amount</u>
DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
Title V	84.298	080250 0708	\$ 390
* P.L. 94-142	84.027	060450 0506	1,352,079
* P.L. 94-142	84.027	070450 0607	1,358,369
* P.L. 94-142	84.027	070480 EOSD	50,000
* P.L. 94-142	84.027	070490 TS	49,468
* P.L. 94-142	84.027	080440 0708	1,756
* P.L. 94-142	84.027	080450 0708	1,353,951
* P.L. 94-142	84.027	080480 EOSD	50,000
* P.L. 94-142	84.027	080490 TS	50,000
Total P.L. 94-142			<u>4,265,623</u>
* P.L. 94-142	84.173	070460 0607	42,622
* P.L. 94-142	84.173	080460 0708	42,389
Total P.L. 94-142			<u>85,011</u>
Homeless Children and Youths	84.196	072320 0607	23,261
Homeless Children and Youths	84.196	082320 0708	21,891
Total Homeless Children and Youths			<u>45,152</u>

* Designates major program

<u>Accrued or (Deferred) Revenue at July 1, 2007</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2008</u>	<u>Prior Years Expenditures</u>
\$ -	\$ 390	\$ 390	\$ -	\$ -
38,161	38,161	-	-	1,352,079
138,811	325,109	207,636	21,338	1,150,733
2,154	2,154	-	-	50,000
10,041	10,041	-	-	49,468
-	1,752	1,752	-	-
-	1,066,233	1,199,271	133,038	-
-	49,862	50,000	138	-
-	45,903	46,903	1,000	-
<u>189,167</u>	<u>1,539,215</u>	<u>1,505,562</u>	<u>155,514</u>	
1,615	6,423	4,808	-	37,814
-	40,843	42,389	1,546	-
<u>1,615</u>	<u>47,266</u>	<u>47,197</u>	<u>1,546</u>	
2,004	8,378	6,374	-	16,887
-	17,582	19,357	1,775	-
<u>2,004</u>	<u>25,960</u>	<u>25,731</u>	<u>1,775</u>	

BRANCH INTERMEDIATE SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2008**

Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount
DEPARTMENT OF EDUCATION - Continued			
Passed Through State Department of Education - Continued			
Handicapped Infants and Toddlers	84.181	071340 190	104,421
Handicapped Infants and Toddlers	84.181	081340 190	103,674
Total Handicapped Infants and Toddlers			208,095
Title II Part A	84.367	080520 0708	1,083
Total Passed Through State Department of Education			4,605,354
Passed Through Calhoun Intermediate School District:			
Carl Perkins Act	84.048	-	106,285
Carl Perkins Act	84.048	-	106,173
Total Carl Perkins Act			212,458
Technical Preparation Consortium	84.243	-	1,900
Total Passed Through Calhoun Intermediate School District			214,358
Total Department of Education			4,819,712

* Designates major program

<u>Accrued or (Deferred) Revenue at July 1, 2007</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2008</u>	<u>Prior Years Expenditures</u>
4,177	23,101	18,924	-	85,497
-	84,404	88,247	3,843	-
4,177	107,505	107,171	3,843	
-	1,083	1,083	-	-
196,963	1,721,419	1,687,134	162,678	
24,750	24,750	-	-	106,285
-	106,173	106,173	-	-
24,750	130,923	106,173	-	
-	1,900	1,900	-	-
24,750	132,823	108,073	-	
221,713	1,854,242	1,795,207	162,678	

BRANCH INTERMEDIATE SCHOOL DISTRICT**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2008**

Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount
DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education:			
National School Lunch Program 2006-2007	10.555	-	11,489
National School Lunch Program 2007-2008	10.555	-	13,042
Total National School Lunch Program			<u>24,531</u>
Child Care Food Program 2007-2008	10.588	-	<u>133,957</u>
Total Department of Agriculture			158,488
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Programs:			
* Head Start	93.600	05CH420941	1,540,274
* Head Start	93.600	05CH420942	<u>1,563,048</u>
Total Head Start			3,103,322
Passed Through Department of Health and Human Services			
Strong Families/Safe Children	93.556	06-12002-3	14,580
Strong Families/Safe Children	93.556	06-12003-2	30,497
Strong Families/Safe Children	93.556	06-12002-2	14,580
Strong Families/Safe Children	93.556	06-12003-2	<u>31,591</u>
Total passed through Department of Health and Human Services			91,248

* Designates major program

<u>Accrued or (Deferred) Revenue at July 1, 2007</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2008</u>	<u>Prior Years Expenditures</u>
1,991	1,991	-	-	11,489
-	12,496	13,042	546	-
<u>1,991</u>	<u>14,487</u>	<u>13,042</u>	<u>546</u>	
-	133,044	133,957	913	-
<u>1,991</u>	<u>147,531</u>	<u>146,999</u>	<u>1,459</u>	
94,764	94,764	-	-	1,540,274
-	1,500,568	1,563,048	62,480	-
<u>94,764</u>	<u>1,595,332</u>	<u>1,563,048</u>	<u>62,480</u>	
4,175	5,630	1,455	-	13,125
5,908	10,676	4,768	-	25,729
-	8,190	9,325	1,135	-
<u>24,307</u>	<u>24,307</u>	<u>27,227</u>	<u>2,920</u>	-
10,083	48,803	42,775	4,055	

BRANCH INTERMEDIATE SCHOOL DISTRICT**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2008**

Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount
DEPARTMENT OF HEALTH AND HUMAN SERVICES - Continued			
Passed Through Calhoun Intermediate School District:			
Drug Free Schools	84.186	-	892
Passed Through State Department of Community Health:			
Early Childhood Investment Corporation	93.575	-	115,791
Early Childhood Investment Corporation	93.575	-	68,037
Total Early Childhood Investment Corporation			183,828
Medical Assistance Program	93.778	-	31,091
Medical Assistance Program	93.778	-	33,005
Medical Assistance Program	93.778	-	22,218
Total Medical Assistance Program			86,314
Total passed through State Department of Community Health			270,142
Total Department of Health and Human Services			3,465,604
OTHER FEDERAL ASSISTANCE			
Bronson/Coldwater Housing Commission	14.239	-	11,685
Total Federal Financial Assistance			\$ 8,455,489

<u>Accrued or (Deferred) Revenue at July 1, 2007</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2008</u>	<u>Prior Years Expenditures</u>
-	258	258	-	-
27,681	90,491	62,810	-	52,981
<u>-</u>	<u>32,710</u>	<u>21,312</u>	<u>(11,398)</u>	-
27,681	123,201	84,122	(11,398)	
1,099	1,099	-	-	31,091
-	33,005	33,005	-	-
-	22,218	22,218	-	-
<u>1,099</u>	<u>56,322</u>	<u>55,223</u>	<u>-</u>	
<u>28,780</u>	<u>179,523</u>	<u>139,345</u>	<u>(11,398)</u>	
133,627	1,823,916	1,745,426	55,137	
<u>-</u>	<u>11,685</u>	<u>11,685</u>	<u>-</u>	-
<u>\$ 357,331</u>	<u>\$ 3,837,374</u>	<u>\$ 3,699,317</u>	<u>\$ 219,274</u>	

BRANCH INTERMEDIATE SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2008**

**Reconciliation of Total Federal Assistance
to Financial Statements:**

Total Federal Assistance received	\$ 3,837,374
Accrued revenue at July 1, 2007	(357,331)
Accrued revenue at June 30, 2008	<u>219,274</u>
Total Federal Assistance expenditures	3,699,317
Prior years accrued revenue written off during current year	74
Payment in lieu of taxes shown in general purpose financial statements as local source	<u>(11,685)</u>
Total Federal Sources per financial statements	<u><u>\$ 3,687,706</u></u>

ADDITIONAL COMMENTS

For the grants tested in accordance with the Single Audit Act, the expenditures identified in the schedule of expenditures of Federal awards are supported by source documentation, accurate, current, proper and in agreement with financial reports submitted to the Michigan Department of Education.

Per review of the June 30, 2007 schedule of findings and questioned costs, no items were noted in the prior years.

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO INTERNAL CONTROL AND FEDERAL GRANT REPORT
FOR THE YEAR ENDED JUNE 30, 2008

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Branch Intermediate School District conform to generally accepted accounting principles in the United States of America as applicable to school districts. Please refer to Note A of the financial statements for a summary of significant policies.

NOTE B – GRANT SECTION AUDITORS REPORT

Management has utilized the Grant Section Auditors Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.

BRANCH INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Reportable condition(s) identified that are considered to be material weakness(es)? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Reportable condition(s) identified that are not considered to be material weakness(es)? Yes X No

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? Yes X No

Identification of major programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.600	Head Start
84.027 and 84.173	P.L. 94-142

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

FINDINGS - FINANCIAL STATEMENT AUDIT

None

MAJOR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None